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U.S. launches billion-dollar cash rescue

By Richard J. Gillespie

WASHINGTON—The federal government could save an immediate $6.5 billion and an additional $520 million a year simply by rationalizing and improving its cash management procedures, according to industry experts.

Cash management

But the White House is not blind to the possibilities. It set up a working party Nov. 1 under David Stockman, director of the Office of Management and Budget, to achieve savings and investigate the government's efficiency at managing the huge volumes of cash.

The White House program is expected to produce a wide-ranging modern cash management system for the government in the next five years. Such a system is a prime target now that the $848.5 billion federal budget unveiled last month has put a spotlight on the massive sums moving through the federal coffers.

According to two government cash managers, speaking at a conference in Atlanta, the government has been losing the money through such practices as mailing interest payments out 15 days in advance of the due date to ensure they arrived on time.

They said simple methods, such as using electronic funds transfer, can enable the government to keep the money in its coffers—in this case at least 10 days longer—reducing its borrowing needs substantially.

The cash managers said any corporate cash manager who looked at the current dollar flows would see huge opportunities on which the administration could capitalize by using its cash more effectively.

Other industry experts said that, assuming federal funds will flow at approximately the same rate as in the 1982 tax year, about $6.5 billion each day, merely speeding up the process to gain an extra day in float could achieve an immediate saving of $6.5 billion and annual savings of at least $520 million assuming the government is paying 8% interest on money

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Pensions & Investment Age

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Retirees seek PBGC takeover

By Nancy Webman

DALLAS—Attorneys for retired Braniff Airways pilots are attempting to dump another $25 million to $30 million in unfunded liabilities on the Pension Benefit Guaranty Corp.

The PBGC already has filed a $39 million employer liability claim against Braniff International Corp. for unfunded liabilities from the airline's pension funds for Teamsters and machinists. In addition Braniff officials have said they probably will turn over to the PBGC the management plan which has an unfunded liability of about $7.4 million. Braniff officials had said the pilots' plan had sufficient assets and would not need to be turned over to the PBGC.

With the possible pilots' claim added in, the PBGC would be forced to swallow at least $71.4 million from Braniff, making it the largest claim in the history of the PBGC.

The new claim on the part of the retired pilots is the result of a legal maneuver by Dallas attorney Jim Hicks. Mr. Hicks said he is appealing a U.S. Bankruptcy Court ruling that set maximum benefits for retired Braniff pilots at $14,400 per year. Under those benefit levels, the Braniff plan for pilots would have $20 million more in assets than it must pay out in benefits.

If Mr. Hicks succeeds in his appeal of U.S. Bankruptcy Judge John Flowers' decision, the benefits for pilots will be increased to 40% of average earnings in a five-year period, which Mr. Hicks said is the rate promised by the plan. Mr.

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Three contribute stock to funds

2 contributions tagged to offerings; one comes from corporate coffers

By Nancy Webman

DALLAS—Martin Marietta, American Airlines and Republic Steel have joined a growing list of firms making a portion of their pension fund contribution in stock.

The Republic Steel and American contributions were new issues made along with a larger public offering, and Martin Marietta's contribution may have come from shares the company held as a result

AA AmericanAirlines

of the recent Bendix Corp. takeover battle.

In addition, two of the contributions introduced some restrictions: Republic Steel's fund cannot sell its shares until April 16 unless there is a price rise or fiduciary standards would be violated; in the case of Martin

MARTIN MARIETTA

Republic steel

Marietta, the company's board of directors is retaining investment authority over company shares in the fund.

In the past few months, a number of companies including U.S. Steel, Reynolds Metals and Kodak have contributed common or preferred stock in lieu of cash; in December, LTV made a contribution consisting in part of its own bonds.

According to Dan Roling, an analyst with Merrill Lynch, part of the shares Martin Marietta contributed to its pension fund may have been those left in the company's coffer after the stock swapping that occurred in the takeover tangle with Bendix. He said that during the struggle, Martin Marietta bought $900 million worth of its own common stock from Allied Corp., which came to its aid in the battle.

According to a press release, Martin Marietta channeled "up to 450,000 shares" of common stock into its pension fund in lieu of part of its 1982 contribution.

If all the shares were contributed, at their roughly $42 per share market value, the stock contribution would amount to $18.9 million, or 29% of the company's $65 million 1982 contribution, which it reported in *Pension & Investment Age*'s annual profile issue (*P&I Age*, Jan. 24). The press release states that the pension fund is expected to hold on to the stock as a long-term investment, and "there is no present intention to make these shares available for sale."

In addition, according to the release, "the investment authority over the shares of common stock to be held by the trust will be exercised by the board of directors of the corporation." Company stock holdings now constitute about 5% of the retirement trust assets, according to the release.

Martin Marietta would not agree to an interview by press time.

American's parent company, AMR Corp., issued 5 million shares of cumulative convertible preferred stock, of which 585,000 went into American's pension fund coffers as about 13.3% of its 1982 contribution, which amounted to $110 million as reported in *P&I Age's*

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Financial officers find technique eases cash flow; can bolster balance sheet

By Kimberly Blanton

CHICAGO—Corporate financial officers have found that contributing stock in lieu of cash to their pension funds is a useful tool in easing corporate cash-flow problems while bolstering the company's debt/equity position.

Corporate finance

This new corporate finance technique is fast catching on among companies trying to weather the depressed economy, which has led many to borrow heavily or to deplete cash reserves just to stay afloat.

Healthier companies have also used it to marshal cash for other corporate purposes, and the technique has tax advantages that other cash-saving methods, such as contribution waivers, do not. One source indicated it may even be useful for increasing the size of new issues without lowering the shares' market value.

Within the past two weeks, American Airlines Inc., Martin Marietta Corp. and Republic Steel Corp. have joined a growing list of companies that have made stock contributions. U.S. Air Inc. executives are studying it.

In a rash of contributions last fall, several metals producers contributed stock: Aluminum Co. of America, Reynolds Metals Co., U.S. Steel Corp. and Wheeling Pittsburgh Steel Corp. Eastman Kodak Co. and Ideal Basic Industries followed.

"This activity is getting increasing recognition in the corporate world," asserted Donald Smith, vice president, Morgan Stanley Inc.

"In lieu of putting up cash, you're able to use corporate securities," explained Dale Hay, vice president-corporate affairs, U.S. Air. "You don't have to come up with cash."

For a number of companies, particularly those in tight cash situa-

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Late news

Sun Co. allocates to 2

RADNOR, PA.—The Sun Co. has added two international managers to its stable of advisers running international portfolios for its $970 million pension fund, according to Richard Cartlidge, investment benefits specialist. Hired to run less than $20 million each were Capital Guardian Trust Co. and Fidelity International Investment Management, Mr. Cartlidge said.

GAF order granted

NEWARK, N.J.—Federal Court Judge H. Lee Sarokin granted a temporary restraining order here Jan. 28 preventing GAF Corp. from distributing the assets from its terminated defined benefit pension plan.

Robert Esteves, a former employee, sought the order to forestall the distribution of assets until the court has heard arguments on the legality of GAF's plan to repossess at least $35 million in surplus assets from the $205 million fund. The plan was terminated last fall.

Teamsters file suit

DALLAS—The Teamsters Central States Southeast and Southwest Areas Pension Fund has filed suit

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CREDIT RATINGS

In Corporate Finance: Agencies predict continued lowerings

L.A. City, Memphis Light

Bond option programs receive good reviews

By Steve Hemmerick

LOS ANGELES—The first reviews are in on the new bond options programs and they are favorable ones.

The $1 billion Los Angeles City Employees' Retirement System has been surprised at the premium return it has earned on its program, and the $175 million Memphis Light, Water and Gas Division is pleased with its similar program.

Both are among the first funds in the country to write option contracts on Treasury bonds. The Securities and Exchange Commission gave the Chicago Board Options Exchange permission to trade contracts on Treasury bonds only months ago.

The Los Angeles City fund began writing covered call options on Treasury bonds last December, and so far has realized about $400,000 in premium income, said Earl Anschultz, pension fund manager. The fund began its program through one of its fixed-income advisers, Loomis, Sayles & Co. Currently, the fund is using the program as a cash substitute, which is yielding more than Treasury bills or cash equivalents.

"It's exciting and safe," said Mr. Anschultz, who also guided the public fund into being one of the first to use stock options back in 1975. So far, the fund has written and sold three covered call options contracts with an underlying value of $15 million in Treasury bonds. The fund will commit up to $25 million in bonds, he said.

Two of the contracts, options on bonds with an underlying value of $10 million, have been written out of the money, and a third contract, on $5 million, at the money. The

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Adviser questionnaires

Questions for *Pensions & Investment Age's* annual investment adviser profiles issue, to be published April 4, have been mailed to more than 700 investment management firms.

The questionnaire seeks information on the amount of tax-exempt assets managed, investment approach, numbers and types of tax-exempt clients, and names of key personnel in the firms.

The Investment Adviser Profile issue is used by many pension funds as a starting point in their search for money managers, and is also a source for industry statistics.

Any investment management firm which wishes to be profiled, but which has not received a questionnaire, should call Ivy Schmerken in the New York office, at 212/210-0117.

Late news

Continued from page 1

in Federal District Court against TeleCom Corp. and its subsidiaries to recover what likely is the largest withdrawal claim ever in a multiemployer pension fund. The Teamsters are seeking $62.5 million in unfunded, vested benefits for employees of Spector Red Ball Inc., a subsidiary of TeleCom. Spector was not named in the suit.

Al Levy, attorney for the Teamsters in Chicago, said that because Spector has less than $10 million available to pay withdrawal claims, the only chance to recoup the withdrawal liability would be from TeleCom and its other subsidiaries.

Larry Schuermann, controller for TeleCom in Houston, said his company "intends to vigorously contest" the Teamsters' suit. In addition, he said, TeleCom and Spector have filed suit in bankruptcy court in San Antonio challenging parts of the Multiemployer Pension Plan Amendments Act of 1980 that assess "heavy monetary penalties on employers who withdraw from multiemployer pension plans."

Spector filed for bankruptcy and withdrew from the plans in April.

Beatrice picks Baring

CHICAGO—Beatrice Foods Co. has made its first move into international investing, selecting Baring International Investment Ltd., according to a Beatrice spokesman. The company has $250 million in employee benefit assets.

Romine leaves airline

ALHAMBRA, CALIF.—George L. Romine Jr. has resigned as director of insurance and trust investments with Continental Air Lines Inc., Los Angeles, to join Santa Fe International Corp., Alhambra, as director of pensions. Continental has named Richard Hobein as the new director of pensions, according to a company representative.

New PBGC proposal

WASHINGTON—The Pension Benefit Guaranty Corp. has proposed a voluntary program that would enable multiemployer plans to obtain benefit guarantees equal to those provided for single-employer plans. The supplemental guarantee program would require multiemployer plans to meet a rigorous four-part test that would include meeting set asset-to-benefit-payment ratios for the past 15 years, and the next 10 years. Plans would have to pay an additional premium to participate.

Getty appoints two

LOS ANGELES—Getty Oil Co. has added Avatar Associates, New York, and McKenzie, Walker Investment Management, Larkspur, Calif., as equity managers to run an undisclosed portion of its almost $600 million pension fund, according to a company spokesman.

Charges to be settled

WASHINGTON—The Labor Department has announced that six former and current trustees of the Southern Nevada Culinary Workers and Bartenders Pension Trust have agreed to pay the fund $3.7 million to settle charges of violating ERISA.

In addition, the fund must be managed by outside asset managers for five years and meet other safeguards.

General Mills in realty

MINNEAPOLIS—The $460 million General Mills Inc. pension fund has allocated part of its 1982 cash flow to real estate investments, including a $4 million investment in Trust Co. of the West's closed-end Realty Fund I, said Judy Mares, director of benefits finance. Citibank received $2 million and David J. Green & Co. an extra $1 million for investments in REITs and realty-related companies.

Protests sent to DOL

WASHINGTON—Past and current employees of Harcourt Brace Jovanovich have sent letters to the Department of Labor protesting the pension fund's $28.8 million investment in land and a building, to finance the company's new corporate offices in Orlando, Fla. They say they oppose investing 40% of the $65 million plan in a single real estate investment, and question the salability of the investment in the event that Harcourt, the sole tenant, were to go out of business.

Treasury borrowing

WASHINGTON—The U.S. Treasury expects to borrow $203 billion in fiscal year 1984, down slightly from the $215 billion it needs in 1983, according to the administration. Other federal entities plan to borrow $14 billion next year.

Smith will join FRC

TACOMA, WASH.—L. Duncan Smith, principal of Peat Marwick Mitchell & Co.'s consulting unit in New York, will join Frank Russell Co. as vice president and client executive in early April.

Budget continues pressure on federal plans

Projects $550 million PBGC deficit; also seeks increases for Labor Department, IRS and SEC

By Joel Chernoff

WASHINGTON—President Reagan's proposed budget for the 1984 fiscal year offers a stepped-up attack on federal retirement programs, particularly the Civil Service Retirement System.

Civil service employees already felt under siege from the bipartisan Social Security commission's recommendation that new federal hires be covered by the national pension system. Now, the administration has proposed healthy cuts in their retirement benefits and increased payroll taxes for employees.

Total outlays requested for all federal employee retirement and disability programs come to $22.2 billion in 1984, up from $20.9 billion in 1983.

Outlays needed for the civil service and disability fund alone total $15.9 billion in 1984, up from $15.2 billion in 1983. Of that $15.9 billion, $3.9 billion is for current appropriations and $12 billion for transfers of interest on unfunded liability and payment of military service annuities.

The proposed changes for Social Security were included in the budget. Receipts would be boosted $22.9 billion from 1984 to 1986 by the National Commission on Social Security Reform's recommendations.

As expected, the president also proposed a six-month delay in granting cost-of-living raises to veterans' pensions and other entitlement programs, as had been recommended for Social Security benefits.

In addition, he called for a one-year freeze on pension benefit increases for both civil service and military pensions.

For achieving long-term cutbacks in federal retirement benefits, President Reagan proposed trimming the federal Civil Service Retirement System. Saying the system "is one of the most generous pension plans available" in the United States and is only 20% funded by employees, the administration proposed changes that would save the government $899 million in 1984.

The government did not attempt, however, to scale back railroad retirement benefits. The federal subsidy to the Railroad Retirement Board is budgeted at $350 million for fiscal year 1984, down from $430 million in 1983 and $390 million in 1982.

The subsidy is for "windfall benefits," which go to 400,000 retirees who have qualified both under the railroad system and Social Security, entitling them to dual benefits. While a 1974 law prevented future workers from qualifying for both programs, federal subsidies will be required until the end of the cen-

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Village sues over member loan plan

By Linda Savage Ruhe

WHEELING, ILL.—The Village of Wheeling has filed suit challenging the use of police retirement funds to finance a low-interest mortgage program for fund members and retired plan participants, according to Village Attorney James Rhodes.

The village is charging, among other things, that the investment is imprudent under Illinois law.

The pension board recently approved the use of $2.7 million of the fund's $3.2 million in pension assets to finance a mortgage program providing $60,000, 30-year loans at an annual interest rate of 9%.

The fund expects to net 6% from the loans.

The fund covering Wheeling police is part of the $500 million Downstate Police Pension Fund for state regulation purposes, but each of the 281 police department funds is administered and invested by a separate board.

This would be the first such use of the money by the various police departments, but several other departments were said to be considering similar proposals.

The suit filed in Cook County Circuit Court requests the court to declare the investment program illegal, and lists 11 complaints.

Those complaints include charges that the investment with a 6% return is an imprudent investment under Illinois statutory requirements and also a constitutional violation of the Illinois pen-

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Board member decries 'incestuous transaction'

California fund guarantees loan to state

By Steve Hemmerick

SACRAMENTO, CALIF.—There was absolutely no political "blackmail" behind the decision of the California Public Employees' Retirement System staff to guarantee a $400 million loan to the State of California, according to a staff member.

But Jake Petrosino, who represents local and county members on the $18 billion retirement fund's board of trustees, was incensed. He said the guarantee, given without the board's immediate knowledge, was an "incestuous type of transaction" and a "sweetheart deal" for the financially troubled state.

The state controller's office asked for the pension fund's backing after learning the interest on a loan from Bank of America would be much higher without the guarantee.

The state has a projected deficit of $1.5 billion and a constitutional requirement that it balance its books at the close of the fiscal year.

State Controller Ken Cory reportedly made several verbal guarantees that the pension fund would earn $400,000 virtually without risk for the guarantee.

Top members of the state's investment staff agreed to the commitment after several assurances from the controller's office that it could make payments on the loan, and would make it a "first priority."

The first $200 million payment on the loan is due Feb. 22, and Deputy Controller John Jervis said the state will make that payment, although it is again going to run out of money in late February unless some legislative changes are made and the state can borrow again.

While certain the state could make payments on the loan, the controller's office reportedly added it could auction refunding warrants to get the money, although there was divided opinion about who would show up at the auction with the bad financial publicity the state has been getting.

> *". . . The board wanted to make certain that the system was not being blackmailed to bail the state out of its fiscal crisis, and I think it is appropriate to be concerned about that."*

Even so, Mr. Petrosino asked why the investment staff had failed to report the guarantee agreement at the board's following meeting if there was no risk.

A staff member said not putting the agreement on the agenda was an oversight, partly because no cash transaction was involved and two key men involved in the loan guarantee were out of the office when the agenda was being put together.

The spokesman also said the investment resolution at that time allowed the staff to make a decision of that sort, although it would have to inform the board of the decision afterward. Before giving the guarantee, the staff had informed the five-member investment committee, but not the full 11-member board. He added the fund's investment counsel had given an opinion that the fund could make such a guarantee.

However, a not easily assuaged Mr. Petrosino said "they failed to put it on the agenda; failed to discuss it; failed to tell board members what they were doing. They made an end run on us because they were afraid it would be denied. The risk versus the gain is not why they made the transaction," he stated, adding that the state has a strong bargaining chip—unless the state can pay its bills, many state employees could be laid off.

Mr. Petrosino said he is willing to help the state, but not willing to "sabotage the fund." Some of Mr. Petrosino's suspicions might result from the knowledge that the staff in charge of the investment of the in-house fund are state employees.

After listening to a lengthy explanation of what had happened, Mr. Petrosino called the explanation an "exotic tale" that was "totally preposterous."

In his view, the guarantee was made in an attempt to "accommo-

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Niagara Mohawk revamps funds

New design ties investments to liabilities through use of specialized portfolios

By Lynn Griffo

SYRACUSE, N.Y.—Niagara Mohawk Power Corp. has revamped the structure of its $330 million employee benefit fund, setting up three separate portfolios that will be based on the retirement schedules of employees.

"This current configuration is our attempt to design the investment management of the fund in relation to our pension liabilities," said Eugene Morel, vice president-risk management.

"Instead of just placing dollars out with managers, we thought about our liabilities, then built a strategy from that perspective," he added.

The largest of the three portfolios is a core portfolio consisting of a dedicated bond fund comprising $120 million—or 36%—of the $330 million in employee benefit assets.

Holdover manager Morgan Guaranty Trust Co. has been assigned to manage this dedicated portfolio (*Pensions & Investment Age*, Dec. 6, 1982), which covers all Niagara Mohawk employees who retired up until January 1982, Mr. Morel said.

In addition, the company has established a second portfolio that will cover employees retiring between January 1982 and five years hence, Mr. Morel said.

This second portfolio will be run by holdover managers Marine Midland Bank and NSR Asset Management, he said, and they will be running fully discretionary accounts.

Assets in this portfolio will also be invested by two commingled real estate fund managers and a utility stock manager, he said. However, he declined to list the names of these three managers because he said the assets placed are relatively small.

The third portfolio, and the smallest in terms of assets, will be the most actively managed, he said.

This portfolio covers those employees retiring after 1987.

Niagara Mohawk has hired eight small money managers to run this portion of the employee benefit funds, he said.

Of the eight managers recently selected, the majority are active equity managers, he added.

Because of company policy, Mr. Morel could not disclose the names of the eight new managers. However, Mr. Morel could say the eight managers range from having total assets under management from $50 million to $300 million.

Collins Associates assisted in the search. ■

CDA study

Half of in-house funds bettered the S&P 500

SILVER SPRING, MD.—Half of the internally managed funds for which corporations report their holdings to the Securities and Exchange Commission appear to have beaten the Standard & Poor's 500 stock index in 1982, according to Computer Directions Advisers Inc. here.

CDA calculated the performance of the portfolios based on their holdings at the end of each quarter and found the median return for the 70 funds surveyed was 21.9% compared with 21.6% for the S&P 500.

The highest returns were among funds that held very undiversified portfolios, with many having only one stock. For example, an $81 million portfolio managed by Sears, Roebuck & Co. that had only six stocks was up 92.9% for the 12 months ended Dec. 31, according to the CDA calculations.

CDA notes the performance figures are calculated by "freezing" the portfolio at the beginning of a quarter and then calculating the performance at the end of the quarter based on that portfolio. Thus, the performance calculation ignores transactions during the quarter. It also does not take account of cash holdings.

In addition, companies are not required to report holdings of less than 10,000 shares and $200,000, although many do. And in some cases, holdings of internally managed pension funds, corporate portfolios and even foundation holdings are reported as one.

Among the top internally managed portfolios were those of the Gannett Foundation, up 83.5%; the General Electric Foundation, up 73.4%; the Richard King Mellon Foundation, up 39.4%; and the Robert Wood Johnson Foundation, up 35.8%. Each held only one stock.

Among the more diversified portfolios near the top of the list was that of Berkshire Hathaway Inc., controlled by investment wizard Warren Buffett, that held 24 stocks valued at $928 million and was up 44.9%.

Other top diversified portfolios included those of TransAmerica Corp., 25 stocks, up 41.9%; Pitcairn Co., 42 stocks, up 34.9%; the Kresge Foundation, 44 stocks, up 33.3%; and NLT Corp., 37 stocks, up 30.5%.

A number of university endowments also had good investment results according to CDA's calculations, including the Massachusetts Institute of Technology's $107 million portfolio, which was up 29.2%. Other top endowment portfolios included the University of California's $2.6 billion portfolio, which was up 29.1%; the University of Pennsylvania's $119 million portfolio, up 26.1%; the Duke Endowment, up 25.7%; and the University of Texas' $624 million portfolio, up 21.4%.

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Inhouse Portfolio Returns
(For year ending Dec. 31, 1982)

Name of fund	No. stocks held	Portfolio value ($ million)	Return (%)
Sears, Roebuck & Co.	6	81	92.9
Hewlett Foundation	1	310	85.0
Gannett Foundation	1	268	83.5
G.E. Foundation	1	10	73.4
Berkshire Hathaway	24	928	44.9
TransAmerica Corp.	25	20	41.9
Mellon Foundation	4	114	39.4
Johnson Foundation	1	987	35.8
Edward R. Hintz	38	79	35.1
Pitcairn Co.	42	316	34.9
Kresge Foundation	44	184	33.3
Capital Group	14	14	31.2
NLT Corp.	37	146	30.5
MIT	30	107	29.2
U. of Calif.	78	2,648	29.1
Lawrence Coolidge	203	140	29.1
Elfun Trusts	79	177	28.5
Standard Oil (In.)	75	313	28.4
Firestone Pension Plans	73	217	28.3

Managers reassess allocations

By Steve Hemmerick

LOS ANGELES—Some top U.S. money managers doubt the United States will suffer from further sharp deflation, and doubt any significant reflation will occur until toward the end of this year or later.

With those forecasts, several balanced managers contacted said they have made their asset allocation decisions favoring stocks. A couple said they are moving toward favoring stocks, but temporarily are overweighted in bonds expecting to make further gains in that market on a possible 100 to 200 basis point further drop in interest rates.

The third quarter of last year showed how helpful or how damaging asset allocation decisions have become. In that quarter, many managers got caught in the cash markets, and more than half of one 254-member sample of money managers found themselves not only way behind the bond indices in performance, but also trailing the Standard & Poor's 500.

Many public funds, locked into the bond market by law, shot past the more trendy corporate pension managers. For the year, the stock market also offered wide potential for those in it, said Bill Kennedy of INDATA, Atlanta and Southport, Ct. Out of 44 industries, 35 were up.

In several interviews, chief investment officers differed somewhat on timing and emphasis, but they seemed to agree on some major points.

They apparently believe the Federal Reserve Board, fearing a major world liquidity crisis perhaps brought on by a new economic relapse here, will continue easing monetary policy.

They believe the greater risks exist on the downside, and even if the Fed continues to "prime the pump", the U.S.

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U.S. cash management . . .

Continued from page 1

borrowed. Russell Morris, assistant commissioner in the Treasury Department, and William M. Henderson, executive director of the cash management staff at the OMB, flew to Atlanta to appeal to members of the National Corporate Cash Management Association for ideas and assistance, and to suggest ways and means in which the OMB and the Treasury Department can begin to tackle this mammoth task.

"I just find it really silly. We are writing checks for $200 million and $300 million and just dropping them in the mail. I don't know if we are receiving checks that size, but I think so. In 1982, it's insane to be having those kinds of checks in the mail. We have got to agree to pay each other in a reasonable way," said Mr. Morris, who was formerly cash manager for the Postal Service.

Bureaucratic inertia

The picture he painted was a familiar one of bureaucratic inertia, ineptitude and plain disinterest.

And according to Mr. Henderson, one of the greatest problems faced is how to break through the political controversies surrounding public payments policies, not to mention the exploitation of the time value of funds by the 100 government agencies that are privileged to handle the collection or disbursement of public funds.

"Frankly, the federal government is not renowned for its pioneering in cash management areas," Mr. Morris joked.

"We have a kind of a little in-joke around financial managers in government about whether the question of federal cash management is a contradiction in terms.

"Well, it's not. It has existed for many, many years in a variety of forms, but a number of things have happened over the last 15 years that have caused us to be behind large corporations and small corporations in implementing more modern cash management systems."

A major difficulty, he said, was the federal programs themselves had grown so fast the financial management systems have not been able to keep pace.

The White House unit is tackling the problem from a number of angles.

Targeted payment dates

One involves a program to specifically target payment dates on items such as housing and development bonds, where it is of the utmost importance that payments of principal and interest be made by a certain date.

The practice has been to mail out checks 15 days in advance, and it was quite usual for the checks to arrive before the 15 days were up. The paying agent had funds available while the government was paying the interest.

A new program using the automated clearinghouse, an electronic payments mechanism operated among banks, will end the free float the government has been paying out for years.

"The payees do not always approve," said Mr. Morris. "They have had this 10- and 12-day float for years and years and they think they are being robbed, even though they are being paid a transaction fee that fully covers the cost of the transaction."

Mr. Henderson said another problem the unit is trying to tackle is the size and complexity of the government's cash flows, the lack of a cash management orientation and congressional inaction.

In the fiscal year 1982, which ended Sept. 30, the federal government collected about $750 billion and dispersed $800 billion—a total cash flow of about $1.5 trillion. On the collection side, taxes alone flowed in through more than 15,000 banks and financial institutions. The Treasury uses 700 commercial banks for general government deposits.

On the payments side, there are 29,000 certified officers around the world who can certify payments against Treasury accounts.

"Control is not in the Treasury. We have got hundreds and hundreds of agencies out there doing their own thing," said Mr. Henderson.

"The second problem is that federal agencies have historically been more concerned with program purposes, and federal managers at the line level really have no incentive to manage cash well because they incur no penalty for poor cash management."

The final problem, according to Mr. Henderson, is that many trouble spots are protected by legislation. Although many attempts to rationalize systems had been made in the past five years, Congress, through the legislative process, often has prohibited the OMB from moving forward, he said.

"For example, there is one industry we've been trying to convert from check deposits. They deposit very, very large tax collections by checks usually drawn all over the country. We've been trying for four years to put them on wire transfer and we now have a legislative prohibition from converting from check to wire transfer for those particular deposits," he said.

To deal with the inertia and agency resistance, the Treasury Department and the OMB have been working together, setting up educational programs and visiting agencies in a bid to get their acceptance.

Senior-level responsibility

In the past, Mr. Morris has packed a suitcase and personally visited agencies to sell them on new cash management techniques. Often the agency head will tell him to go away because it will cost them money to implement a new program, said Mr. Henderson.

But as part of the new effort, each agency is now required to provide the name of a senior-level policy official who has responsibility for setting up an aggressive cash management program.

"Of course, this will be an official that the White House can hold accountable," Mr. Henderson said.

"So we ourselves are in on this project providing some leverage to the Treasury, working through the new Cabinet Council of Management and Administration and through the President's Council of Integrity and Efficiency. And what we intend to do is, I guess in a very polite way, to force an upgrading of cash management systems within the agencies."

The OMB has asked the agencies, possibly for the first time on such a scale, to provide an inventory of all their receipt and disbursement activities, identifying dollar amounts and processes.

"At the same time, they are supposed to be providing us with a detailed action plan for resolving the cash management deficiencies or issues that we know about," Mr. Henderson said.

"Further down the road, we are going to be looking for ways to institutionalize sound cash management in the federal government either through policy changes, process changes, organizational or personal incentives.

Other changes already under way concern making certain interest is received on idle funds.

There are, for example, a number of different programs where the U.S. government has joined co-production agreements with foreign governments to produce weapons systems jointly. In these, a tank or a missile is to be developed at a high cost, and each government pays funds into a pool from which the project is financed.

These pools can be earning interest, Mr. Morris said, and as a result, the OMB finds itself in conflict with the program agency involved that prefers to fund the entire project up front, he said.

"The interest earned on that pool of funds will enable them to buy more airplanes. Our perspective is that if they want to buy more airplanes, they ought to go ask Congress for more money, and it shouldn't be the interest on the federal debt that funds it," said Mr. Morris, adding that a program had been devised to improve such international arrangements.

Collection and disbursement

Improvements on collection and disbursement is another area the unit is working on.

The largest single cohesive cash management entity under the Treasury is the Treasury tax and loan accounts system. This is a mechanism for making tax payments, and essentially all commercial banks participate—more than 14,000 depository organizations accept corporate tax payments. The documentation and funds are sent to the Internal Revenue Service, which can either pass the money along to the Treasury through the Federal Reserve or can hold the funds.

Beginning in April, all such taxes will be paid directly to the banks rather than being paid to IRS service centers, a move intended to expedite processing at the IRS.

A second large government cash management mechanism on the deposit side is the Treasury general account system, a depository system that consists of about 750 deposit points around the country.

Historically these banks were chosen for their convenience, but costs vary widely among banks so the choice of bank is now being switched to a competitive bids system.

"We have found that competitive selection does pay off, not only in terms of item costs in transactions, but in availability schedules. I am sure that all of you are well aware of the competitive nature of the banking industry in respect of availability schedules and we think that for these large accounts we have been successful," said Mr. Morris.

Treasury lock boxing

A third kind of receipt mechanism now under consideration at the Treasury Department concerns lock boxing, which has existed since 1948 as a tool to speed up the flow of funds into corporate coffers, although the first federal government lock box was opened only a couple of years ago.

"I am not sure why it took us so long to get in that business," said Mr. Morris, citing problems concerning the ability of one lock box point to handle the huge volume of government transactions without creating a new industry in the area. As a result, the program will go forward gradually, he said.

But another problem faced by the Treasury Department in introducing this most basic of cash management tools is that each agency has its own accounting system. Not all 100 agencies will have lock box applications, said Mr. Morris.

"However, many will have what you may consider strange and unusual data requirements because of the laws that underlie their programs. They have to maintain data that perhaps corporate customers do not have to maintain," he said.

"Another problem is that the government's financial systems have really not kept pace with their programs. Banks might find themselves trying to interface with a 1965 computer, or an even older one," he said.

Privacy legislation has been another big stumbling block. Although it seemed at first that taxes would be an ideal application for the advantages of lock boxing, Mr. Morris said, prohibitive legislation exists to confound the issue.

"The IRS would never let you the banker, or you the third-party processor, look at my tax return, so they are obliged to open those envelopes and deal with the checks, and it may be a less efficient way, but it is one of those public policy issues about the privacy of your relationship with the government," he said.

But despite the setbacks, Mr. Morris said that within a few years, and certainly within five years, an effective cash management system will be introduced throughout government departments.

Both cash managers said that under the Reagan administration, cash management has become a very high priority.

"It is very hard to justify cuts in federal programs when the federal government itself is wasting money due to sloppy procedures or inefficient cash management procedures," explained Mr. Henderson.

"David Stockman . . . recognizes that the federal agencies, by managing better the cash that we collect, hold and disburse, will have the effect of reducing the deficit, so there is tremendous commitment now within the administration to improving cash management," he said.

"But the goal, as simple as it may sound, is not going to be easy to achieve in the federal government."

Mr. Morris added: "It is something you should be proud of as taxpayers and will probably resent from a business point of view. Some of the gravy isn't going to be there anymore," he said. "But you are going to get paid on time." ■

In-house funds . . .

Continued from page 3

A $313 million Standard Oil of Indiana portfolio was up 28.4%, while the Firestone pension plans' $217 million portfolio was up 28.3%, a $372 million Atlantic Richfield portfolio was up 27.8%, and Gulf & Western Industries' holdings of 100 stocks valued at $912 million were up 26.7%.

The California Public Employees' $3.9 billion equity portfolio was up 25.8%, while the Texas Teachers Retirement System's $2.2 billion portfolio was up 25.6%, the Ohio School Employees Retirement System's $238 million fund was up 24.4% and the Maryland State Retirement System's $992 million portfolio was up 22%.

Other pension fund portfolio results include Sperry Capital Management, up 20.4%; the New York State Teachers Retirement System, up 20.3%; the Bethlehem Steel Pension Trust, up 18.3%; the General Electric Pension Trust, up 18.3%; and the Illinois State University Retirement System, up 17.5%. ■

New oil and gas offering

By Nancy Webman

DENVER—Although other oil and gas offerings to pension funds have delayed their closings or been withdrawn from the market, three Denver men think they have a deal that will buck the trend.

Chris Woessner and Richard Allen, principals of real estate investment adviser Rocky Mountain Investors, and William Sikora, a certified public accountant in the oil and gas industry, are general partners in Pension Fund Investors. They are offering a $50 million limited partnership that will operate as a commingled acreage and acquisition fund.

According to Mr. Woessner, Pension Fund Investors is likely to succeed where others have stumbled or failed because its structure is unique.

"It is the only one that is all, or almost all, lease acquisition," he said.

"The others have a maximum of 20% allocated for that function . . . We're not trying to be all things to everybody by engaging in four or five activities," Mr. Woessner.

In his deal, he said, at least 90% of the money will be invested in lease acquisitions; the remainder will be used to buy production.

The partnership will make five-year loans to independent oil and gas operators to acquire acreage.

The five to 10 operators the partnership will deal with will be required to roll over the money at least every 18 months.

Loans will be made at below market rates, but not less than 75% of the prime rate.

Because of the "discount," the fixed rate of return to the pension funds will be lower than on some other oil and gas deals. However, said Mr. Woessner, overriding royalties on each lease acquired by the operator will more than compensate for the lower interest rate.

"The below-market rate is an incentive to get to the kind of independent we want to deal with.

"For the pension fund, the return will not be from the interest, but from the royalties," he said.

Each operator should turn over his loan about three times during the five-year period. As a result, Mr. Woessner said, the limited partnership gains three overriding royalties from its investment, rather than just one.

The general partners are predicting returns of 27.2% annually, a figure based on a computer model prepared by Keplinger and Associates Inc., a large petroleum engineering firm.

Fees include a 1% one-time origination fee and an annual management fee of 1.5% of a pension fund's investment. Revenue sharing on the interest income will be 99% to the limited partners and 1% to the general partners.

On the royalties, the split will be 85% to the pension funds and 15% to the general partners.

Mr. Woessner said the partnership will be dealing with medium and large independents who do not have sufficient acreage and who, because of reduced cash flows, no longer make lease acquisition a priority.